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SUBJECT: PRESIDENT'S CONCILIATORY STATE OF THE NATION SPEECH

¶1. (SBU) Summary: In the president's annual "report to the nation" speech widely interpreted as conciliatory, President Palacio averted further confrontation with Congress over his reform agenda. Instead, Palacio thanked his critics and praised the role of a loyal opposition, inviting Congress to join the Executive in a civic accord over electoral reforms. Other highlights of the annual presidential report to the nation include neutral mention of Qe Occidental Petroleum commercial dispute, supportive language on an FTA with the U.S., and presidential attention to combating trafficking in persons. Probably as a result of Palacio's newfound humility, a public confrontation with the President of Congress was avoided, but prospects for cooperation on reform remain slim. End Summary.

Political Reform Re-focused on the Elections

¶2. (U) Palacio was insistent on the need for political reform, but proposed only electoral changes, not a new referendum. Convinced that "government of the people, by the people and for the people" is near, Palacio noted his government's responsibility to proceed in a "progressive and peaceful fashion." Successive presidential reform proposals could never be considered failures. "The truth is not susceptible to defeat."

¶3. (U) Palacio denied any personal ambition or intention to extend his mandate "by even a day." He thanked his critics for pointing out his mistakes, and invited Congress and political leaders to join him in a "Civic and Ethical Pact for Democratic Consolidation," involving reasoned debate of electoral reforms soon to be submitted to Congress. The reforms would guarantee equal access to the electoral process and media, and strengthen the election and electoral justice system.

Commerce and Trade Treated Fairly

¶4. (U) Palacio referred briefly and in neutral terms to the Occidental Petroleum commercial dispute, calling it a "complex issue," claiming the government had met its obligations under Ecuadorian law by notifying Occidental to respond to alleged infractions, and pledging the government to apply the law "in accord with the highest national interests."

¶5. (U) An additional segment of the speech dealt with the FTA under negotiation with the U.S., explaining that much

had been agreed (16 of 19 tables), and highlighting only a few areas of remaining difference: agriculture, intellectual property rights, and phytosanitary rules. Palacio highlighted coordination with Colombia on the FTA, and said the remaining differences with the U.S. would need to be resolved in the first trimester of 2006.

Highlighting Progress against TIP

¶6. (U) Palacio referred to trafficking in persons in three different contexts during his two-hour speech. First, he claimed sustained progress in the prevention and eradication of violence against women. Coordination of services by the National Council on Women (CONAMU), the Council on Children, and the National Institute for Child Welfare (INNFA), headed by the First Lady had led to the creation of a network of services in 12 cities through the Ecuadorian Adolescents Program. Another inter-institutional alliance led by UNICEF had developed a program for the prevention of sexual exploitation of minors in tourist-related activities. Finally, while noting Congressional inaction on a government legislative initiative to increase penalties on alien smugglers who cause the death of their clients, Palacio praised the action of Congress in passing landmark reforms to the penal code sanctioning the sexual exploitation of minors.

Other Highlights

¶7. (U) Other highlights in the laundry-list speech included executive credit-taking for:

- creating a new health insurance program to cover 1.3 million;
- beefing up military security on the northern border and around petroleum facilities;
- modernizing the military and instilling renewed respect for democracy ("members of the Armed Forces have been involved in events which cost the institution respect and confidence of the people," he said, a reference to the Cabrera pyramid investment scandal);
- maintaining good relations with Colombia, Peru, mutual cooperation with the U.S., and others;
- referring Ecuador's dispute with Colombia over fumigation of coca plantations along the border to the UN for further study;

Reaction

¶8. (SBU) In their analysis of the speech, critics (and aspiring presidential candidates) roundly lamented the Palacio government's lack of progress in its first eight months, highlighting public fatigue with the atmosphere of confrontation between the government and the opposition. Opposition leaders from the PSC and ID demanded the resignation of Government Minister Alfredo Castillo before any dialogue on electoral reforms or the proposed civic pact would be possible.

Comment

¶9. (SBU) President Palacio's speech included positive treatment of several U.S. interests, highlighted above. But there was an ample element of political theater as well. Much of Palacio's speech was geared toward answering his critics, whose ranks are growing steadily. By addressing them, even praising them, Palacio defused what had been billed as a symbolic confrontation. President of Congress Wilfredo Lucero was widely rumored to be planning to give a Congressional rebuttal after Palacio finished his

speech. Instead, he meekly closed the session. Chances for any serious cooperation between the Executive and Legislative branches, however, remain low.

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